

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE



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The annual stockholders' meeting will be held on June 5, 1962 at the office of the Corporation. A proxy statement and form of proxy will be mailed in May, 1962.

THIS YEAR'S COVER was painted by Twin Cities artist, Roger Lundquist, and represents the wide variety of produce, meats, and poultry available in every Red Owl Store.

TO OUR SHAREHOLDERS AND EMPLOYEES:

Continued supermarket expansion and diversification were highlights of Red Owl's activities in the past year. Sales for the year were at a new high. Consolidated net earnings from operations also established a record despite substantial initial costs of expanding in new markets and an industry strike in the Twin City area.

An important step taken during the year was the negotiation of an agreement to acquire Snyder's Drug Stores, Inc., which operates 21 drug stores in Minnesota. The acquisition was completed shortly after the end of the fiscal year. Snyder's will broaden Red Owl's participation in the retailing field and should provide a number of long-range benefits. Based upon Snyder's operating record, we expect the drug chain will significantly enhance Red Owl's per share earnings. Also, early in the year Radio Station KRSI, serving the Twin City area, was acquired by a stock exchange transaction.

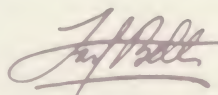
Thirteen new supermarkets were opened during the year, including five in the Chicago market. Two new stores, and a modern bakery were completed in Denver. Previously established stores in the Chicago and Denver areas showed moderate improvement in the past year and there is reason to feel this trend will continue in the coming year.

Sales for the year ended March 3, 1962 increased 1.6%. Increases in retail sales and sales to Red Owl agency stores were offset in part by the decline in Denver wholesale volume which was anticipated and reported earlier. Aided by a strong fourth quarter showing, earnings were up 5.6% for the year. On a per share basis this amounted to \$3.38 on an increased number of shares compared with \$3.30 in the preceding year.

Dividends of \$1,110,180, or 47% of earnings, were paid to shareholders at the rate of 40 cents per share quarterly.

Expansion of retailing operations, including several supermarkets in the Chicago market, should continue in the next year at approximately the same rate as in the past year. For some time, Red Owl has successfully processed and manufactured such products as coffee, tea, bakery items and a delicatessen line. We are currently exploring other possibilities that appear to have good profit potential.

Red Owl has now completed forty years of operation. Our past growth has been made possible by the interest and cooperation of our employees and shareholders. We look forward to further progress with your continued support.



CHAIRMAN OF THE BOARD



PRESIDENT

HIGHLIGHTS

	FISCAL YEAR ENDED		
	March 3, 1962 (53 weeks)	Feb. 25, 1961 (52 weeks)	Percentage Increase (Decrease)
Retail sales	\$228,342,904	\$222,647,136	2.6%
Wholesale sales			
Agency	41,516,279	39,552,475	5.0
Other	9,196,146	12,392,808	(25.8)
Total.	279,055,329	274,592,419	1.6
Earnings			
Net earnings for year*	2,373,603	2,247,605	5.6
Reinvested in business*	1,263,423	1,170,057	8.0
Earned per share common*	3.38	3.30	2.4
Number of common shares outstanding	702,133	681,866	3.0
Dividends per share	1.60	1.60	—
Net working capital**	15,271,975	13,467,806	13.4
Ratio of current assets to current liabilities**	2.06 to 1	2.12 to 1	
Book value per share common.	31.54	29.65	

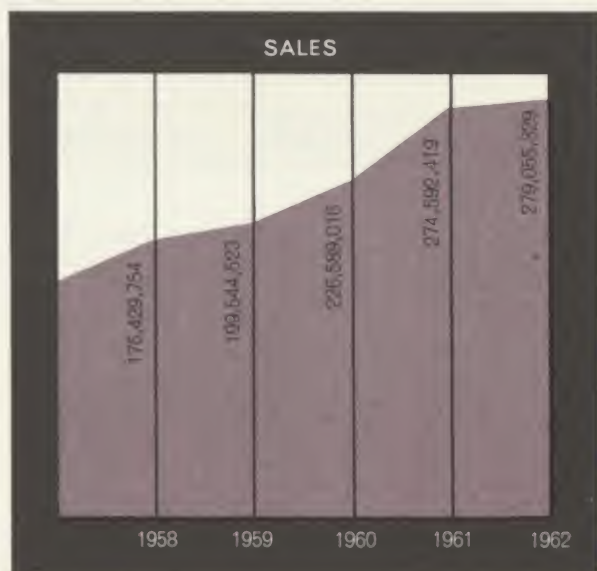
*Excluding special credit in 1961

**Excluding wholly-owned realty subsidiaries

REVIEW OF THE YEAR'S OPERATIONS

The fiscal year ended March 3, 1962 included fifty-three weeks for accounting and reporting purposes, while comparative figures for the previous year represent fifty-two weeks.

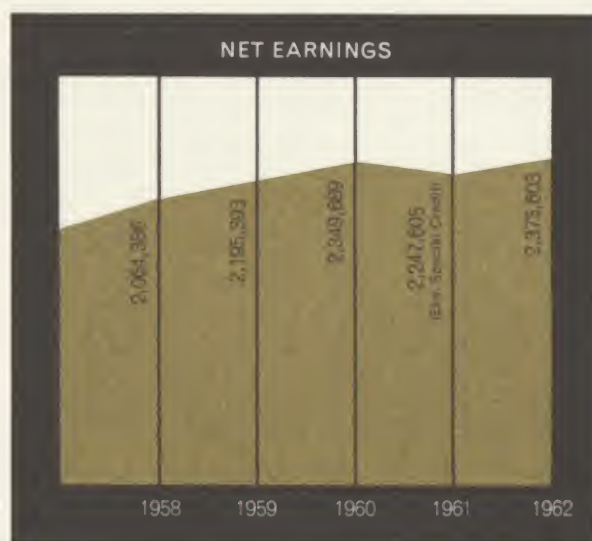
SALES UP. Sales for the year ended March 3, 1962 amounted to \$279,055,329, compared with \$274,592,419 in the preceding year. Retail sales were up 2.6% and Agency Division volume increased 5.0%. As anticipated and noted earlier, wholesale volume in the Denver area declined substantially.



Consolidated net earnings after taxes amounted to \$2,373,603, or \$3.38 per common share based on 702,133 shares outstanding on March 3, 1962. This compares with earnings of \$2,247,605 (excluding a special credit of \$294,000), equal to \$3.30 per share on the

681,866 shares outstanding in the previous fiscal year.

NUMBER OF SHARES INCREASED. Of the increase of 20,267 in the number of shares outstanding,

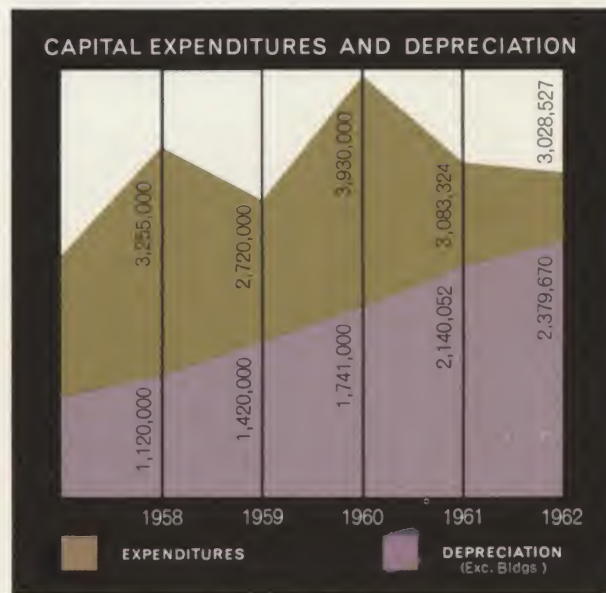
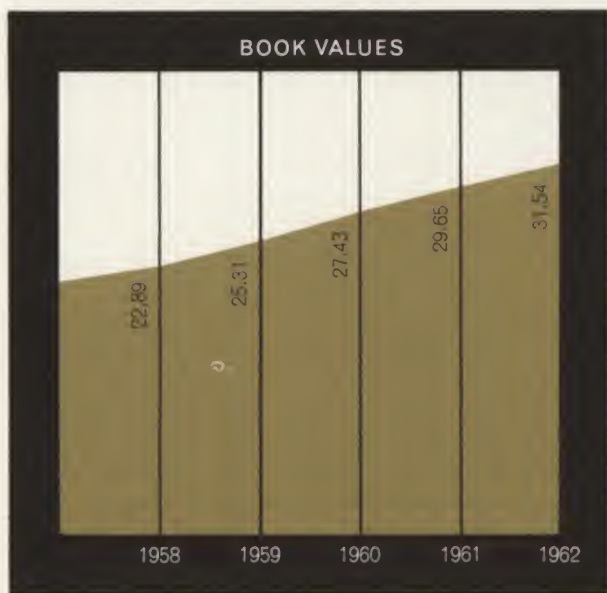
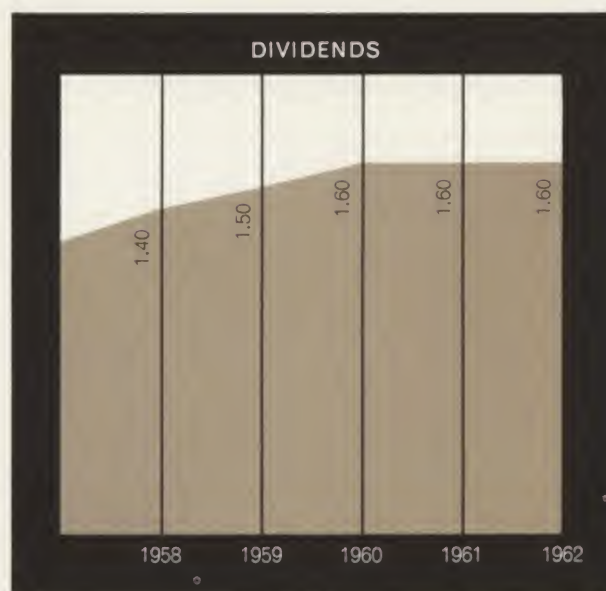


11,490 were due to the conversion of debentures and 6,370 to the exercise of stock options. In addition, 2,407 shares were issued for the acquisition of Twin Cities radio station KRSI.

Costs of establishing Red Owl's position and expanding in the new Chicago and Denver markets reduced the sizable gains recorded in other operating areas. A two-week industry labor dispute in the Twin Cities area also affected earnings.

Quarterly dividends of 40¢ per share were paid, continuing the \$1.60 annual rate. Shareholders have received a cash dividend every year since 1933.

COMPARISON OF EARNINGS, DIVIDENDS & BOOK VALUES



EXPANSION

Net working capital at year-end increased to \$15,271,975, and the ratio of current assets to current liabilities was 2.06 to 1. Capital invested in fixtures, equipment and leaseholds amounted to \$3,028,527. A chart of these expenditures is presented for a five-year period.

Early in the year the company received the \$1 million balance of a \$4 million loan arranged in the previous year. The funds are being used for working capital and for equipment purchases. An additional \$601,000 of first mortgage installment notes were issued by wholly-owned realty subsidiaries. These funds have been used to finance the ownership of store properties leased to the parent company.

SNYDER'S DRUGS ACQUISITION. Under an agreement negotiated during the year, Red

Owl has since acquired all of the outstanding stock of Snyder's Drug Stores, Inc. in exchange for 32,500 shares of its common stock which must be registered prior to issuance. Snyder's will be operated as a wholly-owned subsidiary of Red Owl, and will retain its present management and operating personnel.

A well-managed company, Snyder's is located in Red Owl's headquarters area, and has shown a good record of progress. It is felt that Snyder's is a natural adjunct to Red Owl's business.

The drug chain operates 19 stores in the Twin Cities and one each in Rochester and Duluth, Minnesota. The stores are of the self-service type, with complete prescription and drug departments, and variety merchandise.



Typical of Red Owl's newest acquisitions is this Twin City-located Snyder Drug store. An agreement was negotiated during the year as an important step in Red Owl's diversification program.

SUPERMARKET EXPANSION CONTINUES. Along with diversification within the retailing field, Red Owl continued its supermarket expansion at the same rate as in the preceding fiscal year. Five food stores were opened in metropolitan Chicago; three in Minneapolis; two in Denver, and one each in Milwaukee, Minot, North Dakota, and Sioux Falls, South Dakota. Four stores were closed and three were converted to agency stores. Remodelings were completed at eight other locations. A new home-style bakery was opened in Denver to improve Red

Owls competitive position in that market.

At the year-end, Red Owl operated a food department in three discount centers. One of the new units opened in Chicago last year was part of the large Goodman's Community Center. The company and a soft goods and variety merchandise retailer established a discount store in a converted supermarket in Sheboygan. A third is located within a Gem Center in Denver. Further expansion of this type is planned for the coming year including conventional markets located contiguous to Discount Centers.



This attractive, modern store design provides a cordial, friendly nighttime welcome for Red Owl Wisconsin customers. The store—Green Bay Adams—is one of your company's newest, having been opened in early March.



Early in the year Red Owl began its financial diversification program by purchasing one of the top Twin City radio stations—KRSI. Pictured above is its headquarter area.

The Federal Communications Commission approved applications to permit radio station KRSI to operate both as an AM and FM facility, and to increase its broadcasting time. Previously the station had operated from sunrise to sunset.

THE "BIG BOARD". Of particular importance in the past year was the listing of Red Owl's common stock on the New York Stock Exchange. It is felt this step will improve the marketability of the company's stock, and thus will be in the best long-range interests of shareholders.

Red Owl's expansion and diversification programs have created new opportunities. At the same time they have necessitated a stepped-up personnel development program to furnish more executives trained in over-all company affairs. Results to date of this accelerated executive training program have been encouraging, and it is intended that it will be expanded again in the coming year. In line with personnel development, Red Owl has established scholarships for employees for study in the food field at leading universities.

WHAT'S AHEAD? Further expansion of the Agency Division is planned for the year ahead. This segment of the business for the most part utilizes existing facilities. Thus the Agency Division provides a good return on invested capital and offers excellent potential for future growth.

Many new opportunities for vertical integration are available to the Company, and several are now under consideration. Red Owl's experience in this area indicates the desirability of processing and manufacturing more of its own products.

Adequate funds are available to finance the coming year's store development program, which will be largely in the major metropolitan areas in which the company operates.

FACILITIES	IOWA	MICH.	MINN.	MONT.	NO. DAK.	SO. DAK.	WISC.	WYO.	ILL.	COLO.	TOTAL
Corporate Stores	3	8	60	2	22	19	34	1	9	14	172
Agency and Wholesale Accounts	7	19	184		44	30	74			118	426
Principal Warehouses			1		1		1			1	4





LOOKING TO THE FUTURE

The picture at left is a bird's-eye view of the floor of the New York Stock Exchange—busy hub of much American business activity. Trading in Red Owl Stock first opened on June 21, 1961, and it is believed that this move will greatly broaden the marketability of your holdings in the Company, as well as serving in the best interest of all shareholders. The move to the "Big Board" is another important step to help your company maintain its advanced position in its field.



Pictured above is the recently-installed 1401 Electronic Computer, which is designed to increase your company's efficiency in the reporting and accounting areas.

RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Operations and Retained Earnings

Year ended March 3, 1962 (with comparative figures for the previous year)

	YEAR ENDED	
	Mar. 3, 1962 (53 weeks)	Feb. 25, 1961 (52 weeks)
Net sales:		
Retail	\$228,342,904	222,647,136
Wholesale:		
Agencies	41,516,279	39,552,475
Others	9,196,146	12,392,808
	<u>279,055,329</u>	<u>274,592,419</u>
Costs and operating expenses (note 3):		
Cost of goods sold, including warehousing and transportation expenses	232,669,005	230,012,470
Selling, general and administrative and other operating expenses	41,077,017	39,535,956
	<u>273,746,022</u>	<u>269,548,426</u>
Operating earnings	5,309,307	5,043,993
Other deductions (income)—net:		
Interest (on long-term debt	508,842	438,415
(other	9,895	24,215
Miscellaneous deductions	62,630	31,968
Gain on disposal of property and equipment—net	(121,217)	(2,118)
Miscellaneous income	(95,041)	(56,370)
	<u>365,109</u>	<u>436,110</u>
Earnings before taxes on income	4,944,198	4,607,883
Federal and State taxes on income, estimated	2,663,000	2,473,300
Net earnings before undistributed earnings of wholly-owned realty subsidiaries	2,281,198	2,134,583
Net earnings of wholly-owned realty subsidiaries	92,405	113,022
Net earnings before special credit	2,373,603	2,247,605
Special credit arising from adjustments of certain new store and remodeling expenses of previous years in accordance with Revenue Agent's examination, less related taxes on income—\$346,978	—	294,000
Net earnings and special credit	2,373,603	2,541,605
Deduct dividends on Red Owl Stores, Inc. common stock—\$1.60 per share in each year	1,110,180	1,077,548
	<u>1,263,423</u>	<u>1,464,057</u>
Retained earnings at beginning of year—unappropriated	12,278,933	10,814,876
Retained earnings at end of year:		
Unappropriated (notes 1 and 8)	13,542,356	12,278,933
Appropriated for possible future inventory losses	285,000	285,000
Total at end of year	<u>\$ 13,827,356</u>	<u>12,563,933</u>

See accompanying notes to financial statements.

RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheet

March 3, 1962 (with comparative figures for the previous year)

<i>Assets</i>	<u>Mar. 3, 1962</u>	<u>Feb. 25, 1961</u>
Current assets:		
Cash	\$ 6,690,788	5,475,052
Marketable securities, at cost plus accrued interest (approximate market)	994,632	—
Accounts and notes receivable, less allowance for doubtful receivables \$82,385	2,281,306	2,037,836
Merchandise inventories (note 2)	18,561,351	17,294,879
Prepaid expenses	1,141,780	700,117
Properties subsequently sold or in process of sale (with agreements to lease back)	—	36,634
Total current assets	29,669,857	25,544,518
Investments and other assets:		
Investments in and advances to wholly-owned realty subsidiaries not consolidated, at net equity value (note 1)	1,225,028	1,364,787
Miscellaneous	914,054	793,706
	2,139,082	2,158,493
Property, plant and equipment, at cost less depreciation and amortization (note 3)	13,525,858	13,124,008
Deferred charges	1,125,337	1,219,356
Radio station license and goodwill (note 4)	228,335	—
	<u>\$46,688,469</u>	<u>42,046,375</u>
<i>Liabilities</i>		
Current liabilities:		
Current instalments of long-term debt	\$ 390,000	390,000
Drafts and accounts payable	8,831,818	7,471,472
Accrued expenses	3,582,486	2,911,066
Federal and State taxes on income, estimated	1,593,578	1,304,174
Total current liabilities	14,397,882	12,076,712
Provision for deferred income taxes (note 3)	1,196,338	1,034,388
Long-term debt, less current instalments included above (note 5)	8,948,000	8,721,000
Stockholders' equity:		
Preferred stock—par value \$100 per share. Authorized 50,000 shares; none outstanding	—	—
Common stock—no par value, stated value \$3 per share. Authorized 2,000,000 shares; issued and outstanding 702,133 shares (681,866 in 1961) (note 6)	2,106,399	2,045,598
Additional amounts paid in by stockholders (note 7)	6,212,494	5,604,744
Retained earnings (notes 1 and 8), per accompanying statement	13,827,356	12,563,933
	22,146,249	20,214,275
Commitments (note 9)		
	<u>\$46,688,469</u>	<u>42,046,375</u>

See accompanying notes to financial statements.

WHOLLY-OWNED REALTY SUBSIDIARIES OF RED OWL STORES, INC.

Combined Balance Sheet

March 3, 1962 (with comparative figures for the previous year)

	Mar. 3, 1962	Feb. 25, 1961
<i>Assets</i>		
Cash	\$ 58,571	63,254
Accounts receivable	800	20,321
Property and plant, at cost less depreciation (note 3)	6,652,398	6,386,129
Deferred debt and organization expenses	54,354	55,466
	<u>\$6,766,123</u>	<u>6,525,170</u>
<i>Liabilities</i>		
Current instalments of long-term debt	\$ 286,165	269,299
Accounts payable and accrued expenses	56,446	37,171
Federal and State taxes on income, estimated	70,993	72,844
Due to Red Owl Stores, Inc.	672,642	904,806
Provision for deferred income taxes (note 3)	115,848	78,829
Long-term debt, less current instalments above (note 5)	5,011,643	4,702,240
Investment of Red Owl Stores, Inc.:		
Capital stock	24,500	24,500
Additional paid-in capital	54,000	54,000
Retained earnings, per statement below	473,886	381,481
	<u>552,386</u>	<u>459,981</u>
	<u>\$6,766,123</u>	<u>6,525,170</u>

Combined Statement of Earnings and Retained Earnings

Year ended March 3, 1962 (with comparative figures for the previous year)

	YEAR ENDED	
	Mar. 3, 1962	Feb. 25, 1961
Revenue and other income:		
Rents received from Red Owl Stores, Inc.	\$ 654,853	595,833
Gain on disposal of property	—	13,707
Miscellaneous	5	143
	<u>654,858</u>	<u>609,683</u>
Expenses and other deductions:		
Depreciation and amortization	181,488	161,588
Interest	249,754	222,273
Amortization of debt expense	8,709	7,168
Miscellaneous	20,672	11,532
	<u>460,623</u>	<u>402,561</u>
Earnings before taxes on income	194,235	207,122
Federal and State taxes on income, estimated	101,830	94,100
Net earnings	92,405	113,022
Retained earnings at beginning of year	381,481	268,459
Retained earnings at end of year	<u>\$ 473,886</u>	<u>381,481</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS *Year ended March 3, 1962*

NOTE 1. *The accompanying consolidated financial statements* include the accounts of Red Owl Stores, Inc. and all active subsidiaries except five wholly-owned realty subsidiaries, for which combined financial statements are included in this report. Effective May 20, 1961, the Company acquired all the capital stock of Radio Suburbia, Inc. in exchange for 2,407 shares of common stock and operations and transactions of this subsidiary are included in the consolidated financial statements from date of acquisition.

Investments in and advances to the unconsolidated wholly-owned realty subsidiaries are stated in the consolidated balance sheet at the Company's equity in the net assets of such subsidiaries and consolidated retained earnings include their net undistributed earnings as shown in their combined financial statements.

On April 3, 1962, the Company received all the outstanding common capital stock of Snyder's Drug Stores, Inc. in accordance with an agreement whereby Red Owl is reserving 32,500 shares of its common stock to be issued and exchanged for Snyder's stock upon registration of such shares under the Securities Act of 1933 and the Securities Exchange Act of 1934 and listing for sale on the New York Stock Exchange.

NOTE 2. *Merchandise inventories* of dry groceries in retail stores are valued at the lower of cost or market determined by the retail inventory method; warehouse and other inventories are valued at the lower of cost (first-in, first-out) or replacement market. Further details of merchandise inventories are as follows:

	1962	1961
Retail stores	\$ 6,719,767	6,715,033
Warehouses	10,759,928	9,847,609
Other and in transit	1,081,656	732,237
	<u>\$18,561,351</u>	<u>17,294,879</u>

NOTE 3. *Property, plant and equipment*, at cost less depreciation and amortization, is summarized as follows:

	RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES	WHOLLY-OWNED REALTY SUBSIDIARIES
Land	\$ 208,866	990,424
Buildings	547,740	5,987,760
Building on leased land	—	302,260
Furniture, fixtures and equipment	17,279,720	—
Automotive equipment	3,171,920	—
	<u>21,208,246</u>	<u>7,280,444</u>
Less depreciation and amortization	<u>9,797,314</u>	<u>814,901</u>
	11,410,932	6,465,543
Leasehold improvements, at cost less amortization	1,962,571	—
Store construction in progress and store properties held for sale	152,355	186,855
	<u>\$13,525,858</u>	<u>6,652,398</u>

Depreciation and amortization charges included in costs and expenses of Red Owl Stores, Inc. and consolidated subsidiaries amount to \$2,412,793 in 1962 and \$2,166,795 in 1961. Depreciation charges against earnings have been computed by the straight-line method. For income tax purposes, however, depreciation on certain buildings and on fixtures and equipment acquired since January 1, 1954 has been computed by one of the accelerated methods permitted by the Internal Revenue Code. Provision has been made for deferred income tax liability applicable to the excess of depreciation being claimed for tax purposes over amounts charged against earnings.

NOTE 4. *Radio station license and goodwill* includes \$186,362, representing the approximate market value of common stock issued in acquisition, plus the excess of liabilities over assets of Radio Suburbia, Inc. at date acquired, and \$41,973, representing cost of radio station license and applications carried in the accounts of Radio Suburbia, Inc. The Company intends to carry these intangible amounts as stated until such time as there may be reasonable evidence of a significant and permanent decrease in value or the term of existence of such value has become limited.

NOTE 5. *Long-term debt*, less instalments due within one year and cash held by trustee for current redemptions, is summarized as follows:

	RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES	WHOLLY-OWNED REALTY SUBSIDIARIES
3 $\frac{7}{8}$ % notes due July 1, 1966	\$ 1,080,000	—
5 $\frac{1}{2}$ % notes due October 1, 1972	2,700,000	—
5 $\frac{3}{4}$ % note due January 1, 1975	4,000,000	—
4 $\frac{3}{4}$ % convertible subordinated debentures due February 1, 1978	1,168,000	—
6 $\frac{1}{4}$ % mortgage note due October 15, 1975	—	293,409
5 $\frac{3}{4}$ % mortgage notes due September 1, 1980	—	881,654
5 $\frac{3}{4}$ % mortgage note due August 1, 1981	—	393,847
5 $\frac{3}{4}$ % mortgage note due December 1, 1981	—	184,908
Sinking fund mortgage bonds:		
4% due June 1, 1969, Series A	—	415,000
4 $\frac{1}{4}$ % due March 1, 1970, Series B	—	223,500
4 $\frac{1}{2}$ % due December 1, 1975, Series C	—	1,239,500
4 $\frac{3}{4}$ % due December 1, 1977, Series D	—	520,325
4 $\frac{3}{4}$ % due December 1, 1982, Series E	—	859,500
	<u>\$ 8,948,000</u>	<u>5,011,643</u>

Aggregate annual maturities and required sinking fund redemptions of outstanding notes and bonds for the five years subsequent to March 2, 1963 are as follows: Red Owl Stores, Inc. and consolidated subsidiaries—\$715,000 a year in fiscal years 1964 through 1966, \$595,000 in fiscal year 1967 and \$675,000 in fiscal year 1968; wholly-owned realty subsidiaries—approximately \$295,000 a year in fiscal years 1964 through 1968.

The 6 $\frac{1}{4}$ % and 5 $\frac{3}{4}$ % first mortgage notes and sinking fund mortgage bonds issued or assumed by wholly-owned realty subsidiaries are variously secured by the Company's principal warehouse property, certain store properties and the subsidiaries' interests in related long-term leases to the Company.

Terms of note and debenture agreements provide, among other things, for prepayment of indebtedness at varying premiums; until October 1, 1967, however, no prepayment of the 5 $\frac{1}{2}$ % and 5 $\frac{3}{4}$ % notes may be made for the purpose of refunding indebtedness at lower interest rates. 4 $\frac{3}{4}$ % subordinated debentures are convertible into shares of the Company's common stock at the price of \$33 $\frac{1}{3}$ per share, subject to adjustment under certain conditions.

The agreement relating to the 5 $\frac{3}{4}$ % mortgage notes of realty subsidiaries provides for additional long-term borrowings in the amount of \$449,000. An agreement has also been made for an additional first mortgage loan to a realty subsidiary in an amount not to exceed \$200,000.

NOTE 6. *Of the authorized common stock*, 35,040 shares are reserved for issuance upon conversion of the 4 $\frac{3}{4}$ % subordinated debentures, 15,320 shares are reserved for issuance upon exercise of options granted under the Employees' Stock Option Plan and 3,065 shares are available for granting of future options (also see Note 1).

Options are granted at not less than 95% of market value at dates granted and become exercisable over a period of five years commencing one year after dates granted. All options expire, subject to earlier expiration in the event of termination of employment, if not exercised within six years of dates granted. Changes during fiscal year 1962 in stock options held by certain executive employees are summarized as follows:

	OPTIONS GRANTED		OPTIONS EXERCISABLE	
	Shares	Amount	Shares	Amount
Balance at beginning of year	20,040	\$ 762,482	8,985	\$ 291,345
Granted or became exercisable . . .	1,900	118,750	3,445	141,592
Exercised	(6,370)	(171,560)	(6,370)	(171,560)
Cancelled	(250)	(15,625)	—	—
Balance at end of year	<u>15,320</u>	<u>\$ 694,047</u>	<u>6,060</u>	<u>\$ 261,377</u>

Outstanding options have been granted at prices ranging from \$24.00 to \$62.50 per share (\$62.50 in 1962); at dates of grant, shares under option had an aggregate market value of \$723,532, an average of \$47.23 per share.

NOTE 7. *Additional amounts paid in by stockholders* during the year amounting to \$607,750 include the excess, \$152,450, of amounts paid in over stated value of 6,370 shares of common stock issued upon exercise of employees' stock purchase options; the excess, \$116,330, of market value over stated value of 2,407 shares of common stock issued in exchange for capital stock of Radio Suburbia, Inc.; and the excess, \$348,530, of conversion price over stated value of 11,490 shares of common stock issued on conversion of 4¾% subordinated debentures, less applicable portion, \$9,560, of unamortized expense of issuing the debentures.

NOTE 8. *Restrictions on payment of dividends* (except stock dividends) and purchase, redemption or retirement of capital stock are imposed by the terms of agreements relating to the 3¾% notes, the 5½% notes, the 5¾% note and the 4¾% debentures. Retained earnings at March 3, 1962 free from restrictions, based on working capital and retained earnings requirements under the most restrictive of the agreements, amount to approximately \$2,930,000.

NOTE 9. *Long-term leases*, excluding leases to the Company by its wholly-owned realty subsidiaries, expiring more than three years after March 3, 1962, establish minimum annual rentals on 159 stores and two warehouses. The approximate minimum annual rentals under such leases, excluding taxes, insurance and maintenance costs payable by the Company, amount to \$2,947,000. Of this amount, leases with minimum annual rentals of \$406,000 expire in fiscal years 1966 through 1970 and leases with minimum annual rentals of \$2,541,000 have terms extending into fiscal years 1971 through 1982.

The Company leases its principal warehouse and home office from one of its wholly-owned realty subsidiaries for an initial period of thirty years at a present minimum annual rental of \$394,000. Approximate minimum annual rentals on 10 store properties leased or to be leased from wholly-owned realty subsidiaries aggregate \$284,000.

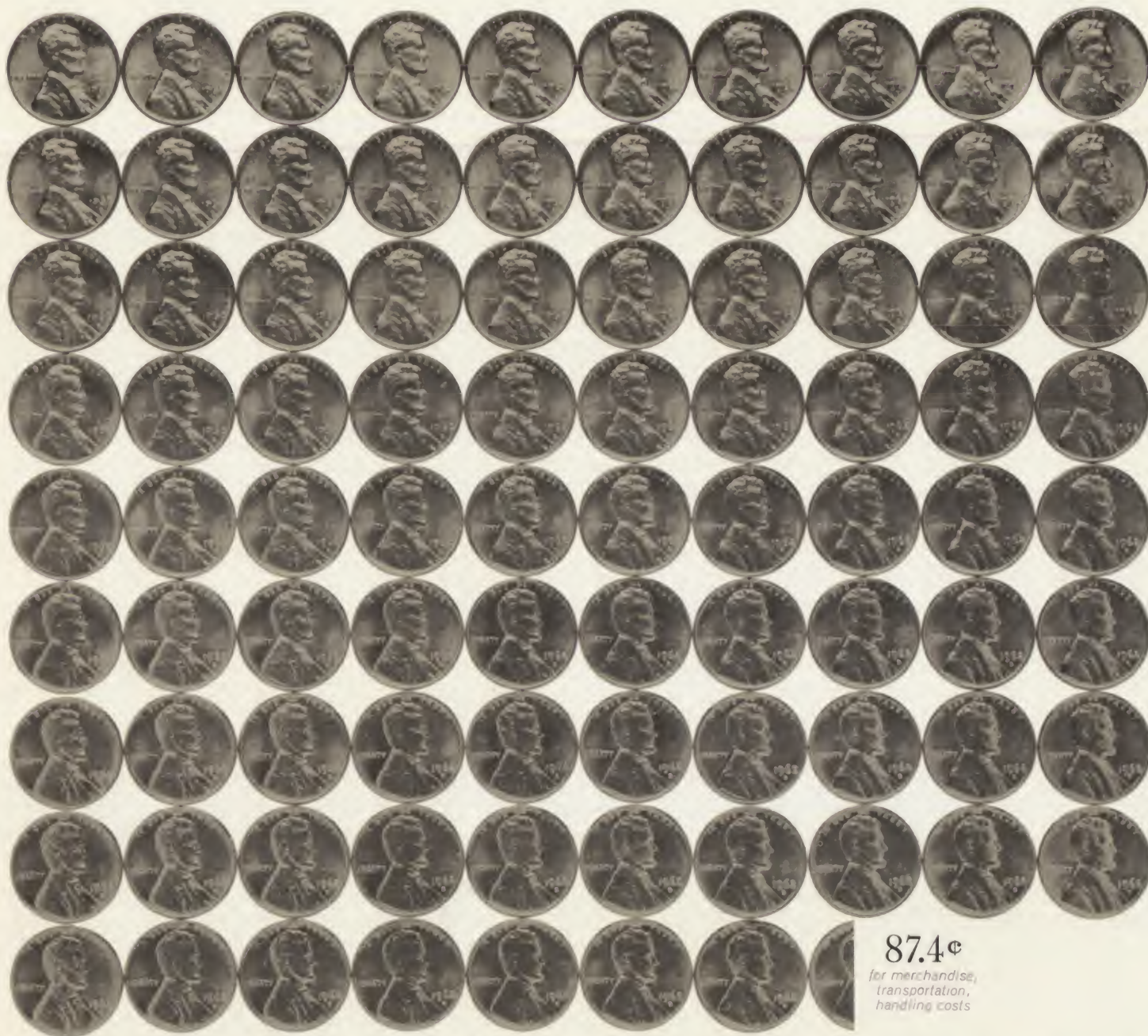
In addition, the Company has entered into agreements to lease store properties at new locations for initial periods of fifteen to twenty years at minimum annual rentals which will aggregate approximately \$194,000.

Other commitments:

The Company guarantees payment of minimum rentals aggregating approximately \$80,000 under the terms of long-term lease agreements entered into by certain agency store owners.

The Company's unfunded liability for past service benefits under the terms of a noncontributory salaried employees pension plan, adopted November 12, 1959, amounts to approximately \$2,112,000 at March 3, 1962.

HOW THE SALES DOLLAR WAS DIVIDED



1.0¢
for
income taxes



.9¢
for
depreciation of
buildings and
equipment



.4¢
to
stockholders



.5¢
reinvested in
future growth
of company



DIRECTORS

JAMES R. ARNEILL, M. D. Executive Director and Chief Surgeon of Arneill Medical and Dental Center, Denver, Colorado

FORD BELL, Chairman of the Board of Directors, and Chief Executive Officer, Red Owl Stores, Inc.

ALF L. BERGERUD, President, Red Owl Stores, Inc.

MERRILL M. COHEN, President, J. M. Dain & Co., Inc. of Minneapolis

JOHN C. CORNELIUS, Senior Consultant and Director, Batten, Barton, Durstine & Osborn, Inc.

GLENN R. GRIFE, Red Owl Stores, Inc.

GOODRICH LOWRY, President, Northwest Bancorporation of Minneapolis

PIERCE H. McDOWELL, President, Howalt-McDowell, Inc., Sioux Falls, South Dakota

DONALD G. McNeely, Vice President, St. Paul Terminal Warehouse Company of St. Paul

ERLING RICE, Vice President, Red Owl Stores, Inc.

LAWRENCE W. RIXE, Vice President, Red Owl Stores, Inc.

OFFICERS

FORD BELL, Chairman of the Board of Directors and Chief Executive Officer

ALF L. BERGERUD, President

MICHAEL J. McMAHON, Vice President, Advertising

WILLIAM J. QUINN, Vice President, Merchandising and Procurement

ERLING RICE, Vice President, Real Estate, Public Relations and Construction

LAWRENCE W. RIXE, Vice President, Finance

JAMES A. WATSON, Vice President, Retail Operations

VERNON J. WINTER, Vice President, Warehousing, Transportation, Manufacturing and Wholesale

JOSEPH T. SYDNESS, Secretary

THOMAS R. PELLETT, Treasurer

F. D. SCOTT, Controller

CLAYTON C. RADUE, Assistant Vice President, Retail Operations

NEIL A. RILEY, Assistant Vice President, Real Estate and Public Relations

FRANK L. WALKER, Assistant Vice President, Agency Division

ALVIN L. NORDSTROM, Assistant Secretary, Retail Operations Research and Controls

For more information about the activities and policies of Red Owl Stores, write to . . .

RED OWL STORES, INC., HOPKINS, MINNESOTA

Executive Offices: 215 East Excelsior Avenue, Hopkins, Minn.

Mailing Address: Post Office Box 329, Minneapolis 40, Minn.

Stock Transfer Agents:

Northwestern National Bank of Minneapolis

Bankers Trust Company of New York

Registrars:

First National Bank of Minneapolis

Morgan Guaranty Trust Company of New York

Auditors: Peat, Marwick, Mitchell & Co.

TEN YEAR RECORD OF GROWTH

FISCAL YEAR ENDED IN	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953
<i>(000's omitted)</i>										
Sales Retail	\$228,343	\$222,647	\$187,957	\$165,662	\$144,891	\$124,293	\$ 95,074	\$ 80,801	\$ 77,064	\$ 67,345
Wholesale	50,712	51,945	38,632	33,882	31,539	30,249	28,679	31,378	29,723	27,744
Total Sales	279,055	274,592	226,589	199,544	176,430	154,542	123,753	112,179	106,787	95,089
<i>(000's omitted)</i>										
Net earnings for year*	2,374	2,248	2,350	2,195	2,064	1,852	1,235	972	680	746
Dividends paid on Preferred Stock ..	—	—	—	—	—	83	112	21	24	42
Net earnings applicable to common equity*	2,374	2,248	2,350	2,195	2,064	1,769	1,123	951	656	704
Dividends paid on common stock ..	1,110	1,078	1,048	936	854	664	598	507	459	432
Net earnings for year retained in business*	1,263	1,170	1,302	1,259	1,210	1,105	525	390	197	272
Net earnings per share common* ..	3.38	3.30	3.53	3.40	3.38	3.18	2.20	1.93	1.43	1.54
Dividends per share common	1.60	1.60	1.60	1.50	1.40	1.25	1.20	1.05	1.00	1.00
Net Working Capital** <i>(000's omitted)</i>	15,272	13,468	12,720	12,921	12,866	8,424	8,369	8,055	6,422	6,477
Ratio of current assets to current liabilities**	2.06 to 1	2.12 to 1	1.98 to 1	2.25 to 1	2.37 to 1	2.06 to 1	2.24 to 1	2.48 to 1	2.26 to 1	2.47 to 1
Stockholders' Equity <i>(000's omitted)</i> ..	22,146	20,214	18,247	16,351	13,986	12,738	11,604	11,078	8,311	8,114
Shares outstanding—Preferred	—	—	—	—	—	9,500	18,850	25,000	4,934	5,239
Common	702,133	681,866	665,116	645,996	610,891	561,861	513,901	483,151	459,590	457,688
Book value per share common	31.54	29.65	27.43	25.31	22.89	20.89	18.73	17.46	16.94	16.51
Number of common shareholders ..	4,078	4,183	4,290	3,827	3,228	2,389	2,291	2,161	1,998	1,777
Number of stores at close of year										
Retail	172	166	163	148	152	146	143	145	151	162
Agency and wholesale	426	423	439	354	376	419	504	556	551	562
Average sales per retail location ..	1,328,000	1,341,000	1,260,000	1,119,000	953,000	851,000	665,000	557,000	510,000	415,000
Number of employees (including part time)	7,400	7,000	6,100	5,600	5,300	4,600	3,900	3,400	3,300	3,200

*Excluding a special credit of \$294,000 in 1961.

**Red Owl Stores, Inc. and Consolidated Subsidiaries, excluding wholly-owned realty subsidiaries.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

NORTHWESTERN BANK BUILDING

MINNEAPOLIS 2, MINN.

THE BOARD OF DIRECTORS
RED OWL STORES, INC.:

We have examined the consolidated balance sheet of Red Owl Stores, Inc. and consolidated subsidiaries and the combined balance sheet of wholly-owned realty subsidiaries of Red Owl Stores, Inc. as of March 3, 1962, and the related statements of operations, earnings and retained earnings for the year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of operations, earnings and retained earnings present fairly the consolidated financial position of Red Owl Stores, Inc. and consolidated subsidiaries and the combined financial position of wholly-owned realty subsidiaries of Red Owl Stores, Inc. at March 3, 1962, and the results of the related operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Minneapolis, Minnesota
April 17, 1962

Peat, Marwick, Mitchell & Co.

*Fruit and vegetables
by the artist
Lundquist*

